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USSR: How Soviet Leaders View Their Economic Problems

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Soviet leaders are well aware of the increasingly poor performance of their economy. They have been unable, however, to come up with a comprehensive program that promises significant improvement in the economic situation. This article examines how Soviet leaders perceive the economic dilemmas that confront the USSR, and what solutions they appear to favor. [redacted]

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Management of the Economy

There is general agreement within the leadership, at least in principle, that the main objective now ought to be to increase economic efficiency rather than to proceed along the old path of expanding output at any cost. Yet probably most top Soviet leaders do not really understand the underlying reasons why radical changes in the existing system of centralized physical planning are required to generate the technological innovation, improvement in quality, and rise in productivity that they seek. They intuitively do understand, however, that measures which might be associated with various strategies of serious change--such as devolution of decisionmaking, the determination of prices and allocation of resources through market mechanisms, or the provision of incentives and power to managers to reduce widespread featherbedding--run the risk of reducing the Communist Party's influence, accelerating ideological erosion, encouraging non-Russian ethnic assertiveness, and provoking political instability. [redacted]

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Even Premier Kosygin, who in the mid-1960s was a forceful proponent of profit, prices, and cost accounting, no longer strongly emphasizes the role of these economic levers. He now argues that the solution to Soviet economic problems lies in forcing the pace of technological innovation, even if this is not supported by managerial incentives. [redacted]

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Discussion of economic administration by President Brezhnev and other leaders over the past six months, changes recently introduced in the planning mechanism, and a recent article by Kosygin indicate that the line of march for the remainder of the Brezhnev era has been set in the direction of greater centralized planning and enhanced bureaucratic elements in economic adminstration, with modest changes in plan indicators. The debate that does exist within the leadership and at lower bureaucratic echelons takes the traditional planning system as a given and focuses on changes in details, some of which are politically important--especially the proper balance between regional and production-branch planning, institutional arrangements for interministerial program coordination, and the role to be played in economic affairs by the party apparatus. [redacted]

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Resource Allocation

With the slowing of the Soviet economy, and the need over the coming months to determine priorities for the 1981-85 five-year plan, controversy over resource allocation decisions will become increasingly acute. The key issues are:

Balance in the economy. Premier Kosygin, backed by the State Planning Committee and much of the central economic bureaucracy, evidently favors a balanced approach that avoids crash campaigns or abrupt shifts in prevailing resource allocation patterns that might aggravate already serious interbranch and interregional imbalances, as well as jeopardize vested institutional interests. The big development project approach espoused by Brezhnev runs counter to this preference for equilibrium and incremental change. [redacted]

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The rate of investment. In a recent statement intended to guide drafting of the next five-year plan, Kosygin unequivocally commits himself to the principle that the rate of growth in investment in the period 1981-85 and beyond should be less than the rate of growth in national income. Given the declining rate of growth of national income in recent years, Kosygin's formula--which has been supported in the current five-year plan by Brezhnev--would dictate extremely small

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future increases in capital investment. If the strategy is carried out, it will tend to depress growth of national income even further, unless productivity gains far exceed anything the Soviets have been able to achieve so far. [redacted]

Slower economic growth will alleviate pressure on energy, raw materials, and labor (which may be a central consideration), and it may enable managers to pay greater attention to efficiency and quality, but it will probably also intensify conflict over the allocation of investment. Kosygin's formula, which breaks with tradition and implicitly accepts low growth as a long-term feature of Soviet economic life, will be challenged by demands from all sectors of the economy for greater investment, and by political leaders who articulate these demands. [redacted]

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Agriculture. For a number of years Soviet leaders have displayed a keen sensitivity to popular dissatisfaction with the food supply, and with meat shortages in particular. The likelihood of a poor harvest this year has evoked further manifestations of leadership nervousness over the inability to satisfy consumer demands. For example, Belorussian party chief Petr Masherov, a candidate member of the Politburo, declared in late June that the "unusually serious" agricultural situation threatened to "undermine people's faith in the real achievements of the economy." [redacted]

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Confronted by the chronic weakness of agriculture, the Soviet leadership--under strong pressure from Brezhnev--has committed itself since 1965 to massive investment in this sector. At the July 1978 Plenum of the Central Committee, which Brezhnev hoped would set the line on agricultural investment policy for the 1981-85 five-year plan, Brezhnev argued that not less than 27 percent of total capital investment should be targeted for agriculture. [redacted]

In the past, some Politburo members--including Central Committee secretary Kirilenko, a likely successor to Brezhnev--have questioned whether this level of investment is the best solution to Soviet agricultural problems; and there are indications that a number of Politburo members might like to pare down agricultural

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allocations. At the November 1978 Plenum, Brezhnev himself backtracked by implying that some agricultural funds should be earmarked for improving food processing and distribution. This rationale for restraint in agricultural spending, even in the face of current food shortages, has recently been amplified by Kosygin, who argues that consumer needs will be better satisfied if some of the funds earmarked for agriculture are shifted to various other sectors that supply agriculture or process and market agricultural products.

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Military spending. It is unlikely that any of the top Soviet leaders favor steep cuts in military spending, or even view these as possible in the present international environment. Yet there appear to be gradations of commitment to the military budget among Politburo members. For example, regional party bosses Romanov (Leningrad) and Grishin (Moscow) seem to favor high military spending; Brezhnev, Kirilenko, and Gromyko are somewhere in the middle; and Kosygin, Committee of State Security chief Andropov, and Central Committee Secretary Chernenko are apparently at the low end.

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Deceleration of the rate of economic growth may force Soviet policymakers to examine more closely the opportunity costs of maintaining the long-term 4 to 5 percent annual growth in military spending. In this context it may be significant that Minister of Defense Ustinov has, on several occasions, explicitly stated that military capability depends upon the general growth and technological modernization of the Soviet economy--perhaps implying a need for some restraint in military spending.

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Siberian development. Soviet leaders do not disagree over the need for fairly rapid Siberian development, but they apparently do not always see eye to eye on precisely the proper pace of this effort or on the appropriate distribution of resources within this vast region. The State Planning Committee, which has to find the funds, has tended to put the brakes on Siberian investment; and Kosygin follows suit. He takes a cautious, gradualist line, and favors narrowly based resource exploitation rather than comprehensive development in the less accessible parts of Siberia.

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This approach contrasts with that of Brezhnev who, during his trip through Siberia in the spring of 1978, urged a speed-up in Siberian development. It also is at odds with the position of the regime's top ideological spokesman, Suslov, whose rationale for Siberian development includes a reference to the present underpopulated state of the region and the effect development will have on "strengthening our defense capability." [redacted]

The Energy Problem

In 1976, at the 25th Party Congress, a policy line was established that called for a gradual shift toward coal and nuclear power in the energy balance. But during his trip to Siberia in 1978, Brezhnev came out foursquare in favor of a concentration of effort on oil production in West Siberia. What is at stake here is not the enormous investment that must be made in the West Siberian oilfields (there is no choice in this matter), but the level of simultaneous investment that should be made in the nuclear power industry and in developing the huge lignite reserves of the Kansk-Achinsk basin in central Siberia. [redacted]

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The evidence suggests that Kosygin, probably supported by most top Soviet energy specialists, continues to push hard for greater investment in nuclear power and in Kansk-Achinsk coal despite Brezhnev's West Siberian campaign. The implication of this more farsighted policy is that total investment in energy, already rising at a rapidly accelerating rate, should rise even more steeply--putting still more pressure on other sectors that Brezhnev might wish to protect, such as agriculture or defense. [redacted]

Energy policy and oil production, in particular, are integrally related to one of the most important Soviet foreign policy objectives--maintaining hegemony in Eastern Europe. In 1978 the USSR exported about 1.5 million barrels per day (b/d) of oil to Eastern Europe, which represented about 47 percent of Soviet oil exports and 13 percent of total production. Oil exports to the West in 1978 accounted for approximately 43 percent of Soviet hard-currency earnings. In the light of our projection of sharply declining Soviet oil production in

the early 1980s, we expect that the Soviets will be faced with an increasingly cruel choice between allocating their available export surplus to the hard-currency market, thereby earning the wherewithal to purchase vitally needed grain and advanced Western technology, or to Eastern Europe, thereby preventing a politically dangerous drop in economic growth and decline in living standards in this strategic region. [redacted]

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For several years the Soviets have been urging the East Europeans to undertake a rapid program of energy conservation, coal substitution, and nuclear power development, and have at the same time been threatening that they will not increase oil deliveries after 1980, and may even reduce them. It is in the Soviet interest to keep oil deliveries to Eastern Europe at the minimum economically and politically tolerable level. It would be easy, however, for the Soviets to miscalculate this threshold. They resent having to supply fuel to Eastern Europe, forgoing hard-currency income while supporting living standards higher than their own, and there are reports of disagreement at middle levels in the Soviet bureaucracy over how much oil to give Eastern Europe. There is no evidence that the Soviet leadership is currently divided over the issue, but the likelihood of tensions will increase as the exportable surplus shrinks. [redacted]

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The Labor Problem

There has always been some pulling and hauling within the Soviet leadership over the proper approach to be taken toward the labor force, and this continues to be true in the present. Among Politburo members there appear to be different assessments of the seriousness of shortages of food, consumer goods, and housing. Different conclusions are drawn as to the implications of deficiencies in consumption. Some leaders emphasize the negative impact that shortages have on the labor effort of the population and on its political morale. Others call for greater discipline, sacrifice, and ideological commitment. Brezhnev, for example, has publicly hinted that a substantial improvement in consumer welfare is not only a precondition for raising labor productivity but is also related to the maintenance of political stability. Kosygin argues that labor productivity now depends

directly upon creating a working environment more conducive to efficiency. He is clearly worried about the influence on productivity of a supply of consumer goods that fails to match monetary income, as well as by egalitarian tendencies in wage payments. His solution to labor force redundancy is training and retraining to promote job mobility, rather than a politically more risky frontal attack on labor hoarding--which would offer the quickest short-term alleviation of the Soviet labor supply problem. [redacted]

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A contrasting attitude, probably deeply rooted among Soviet leaders, was displayed in a recent comment by Minister of Foreign Trade Nikolay Patolichev. After bragging about how the Soviets had built three blast furnaces on a barren plain in the Urals in eight months during 1942, he added "You know, when Leonid Brezhnev says, 'tighten the belts by one notch,' everyone will do it, and the effect will be tremendous." [redacted]

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Conclusions

For the time being, Soviet leaders perceive no need for radical change in either their present system of running the economy or their resource allocation priorities, despite the economic dilemmas that confront them. The effective day-to-day management of the economy lies in the hands of Kosygin, whose inclinations are to adjust to economic difficulties, enforce strict allocational priorities in all sectors, and introduce only minor changes in the traditional centralized planning mechanism (which in fact is all that has been done in the recent decree on planning). While Kosygin evidently disagrees with Brezhnev on what should be the proper emphasis in certain policy areas, such as agriculture, energy, and Siberian investment, we have no evidence that the Soviet leadership as a whole is divided into clearly identifiable factions on economic issues. [redacted]

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By autumn 1980 fundamental policy decisions will have to be reached on the five-year plan for 1981-85. This deadline will intensify demands from all sectors for more resources, without leading to the crystallization of a consistent and effective program for dealing with the Soviet Union's serious economic problems. When Brezhnev passes from the scene, the diffusion of power

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that will exist is likely to multiply the difficulties of implementing a coherent long-term strategy that might offend one or more of the constellations of powerful bureaucratic interests. [redacted]

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